

# India Financials

## RBI credit policy – Positive for financials

### Positive for financials

- The RBI cut CRR by 50bps, which is positive for banks and finance companies.
- The CRR cut will lower cost of incremental wholesale borrowings, which will help banks with low CASA and finance companies. The main beneficiaries are Yes Bank and IDFC.
- In addition, lower bond yields will also help banks with MTM writebanks and higher trading gains. Banks with high duration will benefit – SBI, Axis, OBC.
- The direct impact of a CRR cut on bank earnings is immaterial but the indirect impact in terms of lower incremental cost of wholesale funds and lower bond yields are material. The direct impact of a CRR cut will be that banks' earnings will increase by 1-3% for FY13E as the CRR funds, which currently earn zero interest, will be redeployed in bonds or loans yielding 8-11%.
- We maintain ICICI Bank, Yes Bank, Bank of Baroda and M&M Finance as our key picks.

**Sector view:** The CRR cut will help marginal loan growth and marginal spreads. It is also a lead indicator for the RBI's rate cut cycle expected to commence in March. We expect the rally in bank stocks to continue after the RBI's move. Large and mid cap state banks (SBI, OBC, PNB), ICICI Bank, Axis Bank, Yes Bank and IDFC will likely outperform other financials. We expect the Bankex to rally till more newsflow on weak asset quality emerges. We believe newsflow on asset quality deterioration will now emerge in May/June when more details on restructuring pipelines will be available post the 4Q earnings of banks. We maintain that stressed assets in this cycle are policy driven not rate driven. However, rate cuts will help improve loan growth and will also help banks book trading gains, which can be utilised towards higher loan loss provisions.

**Fig 1: Impact of 50bps change in rates on bank earnings**

	% AFS (%)	Duration (years)	Impact of 50bps chg in yields (Rs bn)	Impact as % of FY12 earnings (%)
Bank of Baroda	16%	2.8	1.9	3%
Bank of India	35%	0.6	1.0	3%
Canara Bank	29%	3.1	4.4	8%
OBC	35%	3.6	2.8	14%
PNB	25%	3.2	4.3	6%
SBI	22%	3.5	12.0	8%
Union Bank	19%	1.9	1.1	4%
Axis Bank	35%	3.1	4.7	8%

Source: Company data, Standard Chartered Research Estimates



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